AIR TRANSPORTATION STABILIZATION BOARD

December 4, 2002

Mr. Frederick Brace
Executive Vice President
and Chief Financial Officer
United Air Lines, Inc.
P.O. Box 66100
Chicago, IL 60666

Dear Mr. Brace:

This letter refers to the application of United Air Lines, Inc. ("United"), dated June 21, 2002 as supplemented (the "Application") to the Air Transportation Stabilization Board (the "Board"), for a Federal loan guarantee under the Air Transportation Safety and System Stabilization Act, Pub. L. No. 107-42, 115 Stat. 230 (the "Act") and the regulations promulgated thereunder, 14 CFR Part 1300 (the "Regulations").

The Board staff and the broader working group, consisting of representatives of the Board's voting members, have reviewed and considered all the materials submitted by United, as well as the explanatory information presented by United at our meetings beginning in April 2002, throughout the summer, and on October 28, November 5, November 11, November 12, November 20 and November 26. The Board staff asked United a series of questions (as referenced in your letter of November 27) and carefully considered the company's answers. Also, the Board's financial, industry and legal consultants have submitted their reports and analyses which have been taken into consideration. In addition, the Board staff has prepared for the Board members a comprehensive analysis of all these materials. The voting Board members held discussions of these materials at meetings on November 4, November 26 and December 4, 2002.

Based on this information and applying the criteria set forth in the Act and the Regulations, the Board cannot approve the proposal submitted by United. The Board believes that the business plan proposed by United is not financially sound. In the Board's view, United's management presented a business plan that does not position the company to meet the challenges of the current airline industry environment and to achieve long-term financial stability. The Board believes that, even if the company were to receive the proceeds of a guaranteed loan, there is a high probability that United would face another liquidity crisis within the next few years. The Board's financial consultant assigned the proposed loan an extremely low credit rating, implying that United is more likely than not to default. The Board believes that the company's proposal poses an unacceptably high risk to U.S. taxpayers and does not support the conclusion that there is a reasonable assurance of repayment of the proposed loan. The Board would like to make you aware of the following fundamental deficiencies in United's proposal:

First, the Board has concluded that United's revenue projections are unreasonably optimistic.

- United's business plan is predicated upon a significant near-term rebound in revenue. In particular, United forecasts that its passenger unit revenue (revenue per available seat mile) will rise sharply in the near-term due to a significant increase in yields. This forecast for unit revenue growth in the next few years is substantially more optimistic than forecasts of industry observers and the Board's consultants. The Board does not concur with United's explanation for this divergence.

- The more conservative alternative projections submitted by United, which assume a delayed industry revenue recovery, anticipate near-term unit revenue growth that is still in excess of the base case expectations of industry observers.

- The Board also believes that the company's revenue forecast does not make sufficient allowance for the likely effects of continued expansion by low-cost carriers in United's markets as well as other potential structural changes affecting industry revenue.

Second, the Board believes that more reasonable revenue forecasts for United would not support the company's cost structure as presented in the business plan. The Board notes that even with the benefit of United's proposed cost reduction initiatives, United would remain among the highest cost carriers in the industry. If competitors are successful in achieving additional cost savings, United's relative cost position could weaken further.

Third, the Board has substantial concerns about the underfunded status of United's pension plan. Even if United obtains a waiver to reduce near-term funding requirements, required cash outflows will likely remain substantial over the term of the proposed loan. The Board is concerned about United's ability to generate sufficient cash flows to meet its pension funding obligations concurrent with other obligations, including repayment of the guaranteed loan.

Fourth, United has proposed that the loan be secured by a significant collection of assets. The proposed collateral package does not overcome the deficiencies of the business plan and associated default risk. Analysis by the Board's consultants and staff indicates that the collateral package is likely to have substantially less value in the event of default than is estimated by United. The Board believes that there is a significant risk that the recovery value will be less than the outstanding amount of the loan.

Finally, the Board considered United's proposal of November 26, 2002 for a staggered draw on the loan facility. The Board did not view the alternative structure as a material change to United's proposal. The Board's financial consultant assessed this proposal and affirmed the credit rating it had previously assigned. Two members of the Board also believe that the suggested revisions that United proposed by e-mail and fax on the evening of December 3 are highly unlikely to change their assessment of United's proposal.

Considering all of the foregoing factors, Governor Gramlich and Under Secretary Fisher voted not to approve this proposal. Mr. Van Tine, General Counsel of the Department of Transportation, voted to defer a decision on the Application until December 9 to allow United to submit additional financial information.

Sincerely,

Daniel Montgomery